

Message Text

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PAGE 01 WARSAW 00879 130855Z

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ACTION EUR-12

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INFO AMEMBASSY BELGRADE

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AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

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E.O. 11652: N/A

TAGS: ETRD, COMECON

SUBJECT: JAROSZEWICZ DESCRIBES NEW PRICING MECHANISM FOR INTRA-CEMA
TRADE

1. SUMMARY: IN HIS FEBRUARY 7 SPEECH TO THE WARSAW CON-
FERENCE OF THE POLISH UNITED WORKERS PARTY (PZPR), PRIME
MINISTER JAROSZEWICZ OUTLINED THE SYSTEM APPROVED DURING
THE LATEST SESSION OF THE CEMA EXECUTIVE COMMITTEE FOR
SETTLING THE PRICES OF GOODS TRADED AMONG CEMA MEMBERS.
ACCORDING TO JAROSZEWICZ, PRICES WILL
BE RECALULATED ANNUALLY, BASED ON AVERAGE WORLD PRICES FOR
THE PRECEDING FIVE YEARS. THIS NEW PRICING POLICY,
DESCRIBED BY JAROSZEWICZ AS A PROCESS OF "PERFECTING
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PAGE 02 WARSAW 00879 130855Z

PRICES", WILL APPLY TO INDUSTRIAL GOODS, PARTICULARLY

THOSE REQUIREING RELATIVELY LARGE AMOUNTS OF MATERIAL, E.G., SHIPS AND RAIL CARS, AS WELL AS RAW MATERIALS. END SUMMARY.

2. JAROSZEWICZ'S REMARKS ON CEMA TRADE WERE AMONG THOSE PORTIONS OF HIS SPEECH TO THE WARSAW PARTY LEADERSHIP QUOTED IN THE FEBRUARY 8-9 EDITION OF "TRYBUNA LUDU". POINTING OUT THAT THE ECONOMIES OF CEMA COUNTRIES ARE NOT ISOLATED FROM THE WORLD MARKET AND NOTING IN SOME DETAIL THE PRICE INCREASES OF RAW MATERIALS IN WORLD TRADE, THE PRIME MINISTER NEVERTHELESS TOOK CARE TO EMPHASIZE THAT CEMA PRICING POLICIES WOULD CONTINUE TO PROTECT MEMBER COUNTRIES AGAINST "SPECULATIVE" PRICE FLUCTUATIONS. THE NEW SYSTEM, HE SAID, WOULD ENCOURAGE MORE EFFECTIVE UTILIZATION OF FUELS AND RAW MATERIALS AND WOULD HAVE CONSIDERABLE INFLUENCE ON THE INITIATION OF JOINT INVESTMENT PROJECTS AND OTHER FORMS OF COOPERATION AMONG CEMA PARTNERS.

3. COMMENT: THE NET IMPACT OF THE NEW PRICE SYSTEM ON INDIVIDUAL CEMA MEMBERS WILL DEPEND ON THEIR TERMS OF TRADE IN THE ITEMS WHOSE PRICES ARE RISING. POLAND WILL PRESUMABLY BE HIT WITH SUBSTANTIAL INCREASES IN CRUDE OIL AND OTHER RAW MATERIALS PRICES, BUT SHOULD BENEFIT FROM HIGHER RETURNS ON EXPORTS OF COAL, SHIPS, RAIL CARS, AND MACHINERY TO ITS CEMA PARTNERS.

4. FOLLOWING THE INITIAL ROUND OF PRICE HIKES AS THE NEW SYSTEM IS INTRODUCED, THE AVERAGING FORMULA WILL PROVIDE CEMA MEMBERS WITH SOME CUSHIONING AGAINST THE FULL IMPACT OF WORLD-PRICE INCREASES. HOWEVER, CEMA PLANNERS MUST NOW COPE WITH ANNUAL PRICE RISES, HAVING LOST THE SECURITY OF LONGER-TERM PRICE AGREEMENTS. PARADOXICALLY, SHOULD THE NEW MECHANISM BE APPLIED DURING A PERIOD OF FALLING WORLD PRICES, CEMA PRICES WOULD DECLINE MORE SLOWLY THAN THOSE ON THE WORLD MARKET. THUS, CEMA SUPPLIERS WILL BE RELATIVELY MORE RELUCTANT TO SELL AMONG THEMSELVES WHILE WORLD MARKET PRICES ARE RISING (AS IS REFLECTED BY RECENT POLISH AND SOVIET EFFORTS TO EXPAND HARD-CURRENCY SALES OF FUELS, EVEN AT THE EXPENSE OF THEIR CEMA PARTNERS) THAN WHEN WORLD LIMITED OFFICIAL USE

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PAGE 03 WARSAW 00879 130855Z

PRICES ARE DROPPING.

5. ALTHOUGH JAROSZEWICZ DID NOT SAY WHEN THE NEW PRICE SYSTEM WOULD BECOME OPERATIVE, POLISH SOURCES HAVE TOLD US THAT INCREASES IN THE PRICE OF SOVIET OIL AND POLISH COAL WENT INTO EFFECT JANUARY 3. NO ONE HERE HAS YET NAMED A SPECIFIC FIGURE, BUT POLISH RADIO HAS MENTIONED A PRICE FOR SOVIET OIL "ONE-THIRD

BELOW THE WORLD PRICE", THUS PROVIDING GENERAL CONFIRMATION OF THE \$6.73-A-BARREL FIGURE CITED IN MOSCOWS 1390.

6. A "TRYBUNA LUDU" ARTICLE REPORTING ON THE POLISH-CZECH TRADE PROTOCOL CONCLUDED IN PRAGUE FEBRUARY 7 REFERS TO "CORRECTIONS" IN THE PRICES UNSPECIFIED ITEMS SOLD UNDER THE BILATERAL AGREEMENT. IT WOULD APPEAR THAT THE INEVITABLE CHAIN REACTION OF PRICE ADJUSTMENTS IN TRADE AMONG CEMA MEMBERS IS UNDER WAY. END COMMENT.
DAVIES

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